

Additionally, as a result of the recent lawsuit filed by the American Civil Liberties Union (ACLU), which alleges low-income students are disproportionately impacted by layoffs based on seniority, legislation has been introduced to remedy the situation. AB 2219 (Fuentes, D-Los Angeles) focuses on training and retaining teachers.

Special Education

The May Revision continues to provide special education with a "fully funded" negative COLA of 0.38% on the state share for a loss of \$12.9 million.

Enrollment growth is funded at \$3.6 million, or \$463.67 per ADA, and the May Revision includes several smaller adjustments. Additionally, the Budget continues to include \$65 million, or \$10.92 per ADA, in ongoing AB 602 funding to pay for the settlement agreement related to the Positive Behavioral Intervention Plan. This will be the third attempt to get funding into the Budget, which must be approved by the Legislature.

Two other issues remain on the watch list for special education. Funding for the AB 602 Special Disabilities Adjustment was included in the 2009-10 State Budget without the statutory authority to make the calculation. The California Department of Education indicates if a legislative "fix" isn't adopted by the Second Principal Apportionment (July 2010), it will make a corresponding adjustment to affected special education local plan areas (SELPAs).

The May Revision also includes a proposal to suspend AB 3632 (Chapter 1747/1984), which mandates county mental health agencies to provide mental health services to children with disabilities. There are concerns that this proposal will shift the cost of providing services to children with disabilities as required in their Individualized Education Program to school districts.

School Facilities

The following fund balances account for unfunded approvals made at the February 24, 2010, State Allocation Board (SAB) meeting:

	New Construction	Modernization
Proposition 1D	\$167.1 million	\$1.52 billion
Proposition 55	\$325.1 million	\$0.4 million
Proposition 47	\$12.7 million	\$2.1 million

The California State Treasurer sold school construction bonds totaling \$1.3 billion in March 2010. The bond sale allowed the SAB to apportion approximately \$960 million to school agencies for projects. There is approximately \$415 million remaining from the bond sale that will be allocated at a future SAB meeting.

DEFERRED MAINTENANCE - The May Revision proposal continues to provide funding for the state portion of the Deferred Maintenance Program at the same funding level as in the January Budget Proposal. The funding may be used for any educational purpose and school agencies are not required to match the funding level due to the flexibility provided through 2012-13.

ROUTINE RESTRICTED MAINTENANCE - Flexibility in the budget continues to allow districts to reduce the required contributions into routine restricted maintenance accounts from 3% of General Fund expenditures to 0% through 2012-13.

Lottery Funds

The Legislature enacted AB 142 (Chapter 13/2010), which increases schools' share of Lottery revenues from 34% to 37%. This change in state law increased Lottery revenues to schools by 3%.

This increase to schools is the result of decreasing the administrative portion to the Lottery Commission from 16% to 13%.

Lottery funding to LEAs will increase by \$2.50 per ADA based on these new statutes. The overall funding to schools increased by \$15 million from \$1.054 billion to \$1.069 billion for the 2009-10 fiscal year. The projections for the 2010-11 fiscal year are estimated at the same level. Based on this estimate, the rates are \$111 per annual ADA for unrestricted funding and \$14.50 per annual ADA for Proposition 20 restricted funding. The Lottery Commission will approve its budget in June 2010.

Closing the Books

The task of closing the books for the 2009-10 fiscal year will be another difficult one. It will be critical for school business officials to be diligent in exercising the ability to sweep eligible ending balances and to utilize the flexibility in Tier III categorical programs.

Dartboard Factors

SSC's Financial Projection Dartboard factors are developed by SSC with input from independent state agencies and private economic consulting firms based on the latest information available. These factors have been updated to reflect changes since January 2010 to assist school agencies in preparing their upcoming budgets and multiyear projections and are now available on our website, www.sscal.com.

POCKET BUDGET 2010-11

A Summary Analysis of the Governor's May Revision Proposal for the 2010-11 State Budget for California's Schools

Prepared by



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May Revision Proposals

The Governor's May Revision contains both good and bad news for schools. While the overall tenor of the Revision reflects continued negative economic trends and a now-estimated \$19 billion shortfall, the level of cuts to schools remains much the same as January, with some important caveats.

The May Revision includes cuts to Proposition 98 for child care programs. Additionally, the \$1.5 billion cut to education that was proposed in January remains; however, it is no longer targeted to administration. Along similar lines, the Governor proposes to modify the reduction to county offices of education to be comparable to the cuts proposed for school districts and also to provide local authority to apply the reduction.

Holding K-14 education to nearly the January Budget level comes at a price to other parts of the State Budget—particularly to health and social service programs. The May Revision proposes eliminating several health and social service programs, which is expected to get a chilly reception from the Democratically controlled Legislature.

Proposition 98

In spite of a nearly \$500 million projected 2010-11 increase in state General Fund tax revenue above the Governor's January Budget, the level of the Proposition 98 minimum guarantee has allegedly dropped from \$50.0 billion to \$48.4 billion. The May Revision attributes the \$1.6 billion drop to two policy proposals – (1) rebenching of the Test 1 factor used to calculate the minimum guarantee to account for nearly \$1.5 billion in cuts proposed for child care and (2) postponement of a hold-harmless provision associated with the swap of the sales tax for an excise tax on gasoline and its impact on the determination of the Proposition 98 guarantee.

The Proposition 98 funding levels for 2009-10 remain essentially unchanged from the Governor's Budget proposed level of \$49.9 billion. However,

the May Revision notes that, due to a significant decline in tax receipts, the minimum guarantee level has actually dropped, but no downward adjustment is proposed.

Based on a change in law adopted as part of the final 2009-10 State Budget, in 2010-11, the state was due to begin paying down \$11.2 billion determined to be owed to K-14 schools based on a dispute regarding the Proposition 98 Maintenance Factor. The May Revision proposes to consider the approximately \$502 million appropriated to Proposition 98 above the minimum guarantee in 2009-10 as a pre-payment of its scheduled payments towards the \$11.2 billion obligation. No additional repayment is included as part of the 2010-11 May Revision funding proposals.

Unrestricted Funding

COST-OF-LIVING ADJUSTMENT – The May Revision updates the cost-of-living adjustment (COLA) to reflect the official statutory COLA for 2010-11 of -0.39%, a revision of -0.01% from the projected -0.38% COLA. The impact is around 60¢ per average daily attendance (ADA).

DEFICIT FACTORS – The deficit factor remains unchanged from the Governor's January Budget-proposed level of 18.355% for school districts and 18.621% for county offices of education (COEs).

REVENUE LIMIT REDUCTIONS – The Governor backs away from his January proposal to target \$1.2 billion in cuts to school district administrative costs and \$300 million from elimination of barriers to contracting out.

However, the May Revision continues this level of overall cuts to school districts as a \$1.5 million reduction. The Department of Finance (DOF) suggested the cut may be applied to school districts based on a 3.85% reduction to undeficit base revenue limits. Applying the reduction in this manner fails to provide a mechanism for future restoration since it would exist outside the revenue limit deficit factor. At press time, the DOF had not yet finalized a decision on how to mechanically

apply the cut. The methodology could alter the amount of the cut for individual districts.

COUNTY OFFICE OF EDUCATION REDUCTIONS – In January, the Governor proposed reducing COE revenue limit funding by \$45 million. The May Revision proposed reducing this amount to \$28.2 million, which brings the level of reduction to 3.85%, consistent with the proposed cuts to school district revenue limit funding levels.

APPORTIONMENT DEFERRALS – A total of \$5.7 billion in cross-year funding deferrals remains unchanged by the May Revision. In addition, recent changes in legislation allow for the State Controller and DOF to add up to \$2.5 billion in deferrals made within the fiscal year for each of three designated timeframes. The state has passed on its cash flow problems to local educational agencies (LEAs) with unprecedented delays in payments.

CHILD CARE REDUCTIONS – The Governor's Budget proposes making nearly \$1.5 billion in cuts to child care programs, of which \$1.2 billion is attributable to eliminating state funding for need-based, subsidized child care. State preschool programs are exempt and would continue to receive funding under Proposition 98. However, depending upon the type of programs operated at an LEA, cuts in this area could affect programs that are offered.

Federal Programs

Federal funding remains relatively flat in 2010-11. However, funding for Title IV (Safe and Drug Free Schools) is proposed to be eliminated and Title II, Part D (Enhancing Education through Technology), may be reduced by 60%.

After the major influx of federal stimulus dollars provided in 2009-10 through the American Recovery and Reinvestment Act (ARRA), there remain a handful of ARRA programs from which LEAs may receive funds in 2010-11. The largest among these is funding for School Improvement Grants, which is targeted to the state's lowest-

performing schools. In addition, Congress is currently discussing a second round of stimulus funding as part of a \$23 billion "jobs bill." The measure is supported by Democrats and the President, but is receiving a lukewarm reception by the Republicans in Congress.

California continues to rely on the federal government for new dollars during these tough economic times. In January, the state applied for Race to the Top funds, but lost out on the first phase of the funding. Several California school superintendents are preparing the state's memorandum of understanding (MOU) for use by school districts that would like to apply for the second round of funding. The MOU should be available shortly and the application deadline is June 1, 2010.

Categorical Flexibility

The Governor's May Revision continues the flexibility options approved in 2008-09 with no changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose.

Additionally, K-3 Class-Size Reduction (CSR) funding penalties are relaxed for two more years and schools agencies maintain the flexibility to shorten the school year until 2012-13. Reserve requirements for economic uncertainties must be fully restored by 2011-12.

The Legislative Analyst recently recommended that K-3 CSR, Home-to-School Transportation, and After School Education and Safety programs be added to the Tier III list of programs. The May Revision does not include this proposal.

The Governor also continues to pursue several teacher reform policy changes. SB 955 (Huff, R-Diamond Bar) proposes to allow for teacher layoff and placement decisions to be made without exclusive regard for seniority. The bill also makes changes to teacher dismissal processes, layoff-noticing requirements, and substitute pay.